

Evolution of Personal Income Tax Structure in India (2010-2026)

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1. Abstract

This study looks at how the personal income tax system in India has changed between 2010 and 2026. During these years, the system gradually shifted from being complex and difficult to understand to becoming simpler and more user-friendly. Earlier, taxpayers had to depend heavily on various deductions and exemptions to reduce their tax burden. Over time, the focus moved toward making the structure clearer and easier to follow. The government also made efforts to improve the overall experience of taxpayers by introducing digital systems that reduced paperwork and simplified the filing process. These changes encouraged more people to file their returns and become part of the formal tax system. As a result, both tax collections and the number of taxpayers increased steadily over the years. Overall, the evolution of the personal income tax system reflects a continuous effort to balance fairness, simplicity, and revenue growth. The reforms aimed not only at increasing government income but also at building trust, improving transparency, and making tax compliance less burdensome for ordinary citizens.

Abstract keywords

Tax Reform, Structural Transformation, Compliance Enhancement, Digitalization, Revenue Growth, Tax Rationalization

Introduction

Background of study:

Personal income tax is one of the major sources of revenue for the Government of India. It also plays an essential role in the government's fiscal policy framework. The structure of India's current income tax system has undergone Personal income tax is one of the changes during the last 15 years; it was previously designed to provide sufficient equity, simplicity, transparency, and compliance incentives, now it is designed to provide equity, ease of use, transparency, and incentives to comply with the tax code using technology from 2010 to 2026.

Many significant reforms occurred between 2010 and 2026 to facilitate the shift of the income tax system from a complicated exemption-based structure to a more convenient and technology-based system that supports taxpayers. Each of these decades has experienced substantial transformation as demonstrated by the regular revision of tax brackets and limit of exemption, rationalization of specific deductions, and improvement of individual compliance.

The introduction of the New Tax Regime (whereby the taxpayer has the opportunity to pay a lesser amount of income tax with fewer exemptions) in the Union Budget of 2020-21 was a pivotal moment in the transition to a new system. In 2023 and 2024 Union Budgets, the Government of India further emphasized their commitment to the New Tax Regime by making it the default income tax system; facilitating voluntary compliance with the New Tax Regime is intended in part to support taxpayers who have typically relied on the older (deductions-based) income tax regime.

Moreover, the government's modernization of income tax administration through digitalization (e-file, online processing, and faceless procedures) will improve taxpayer experience with the administration of income taxes. Further, these changes were intended to minimize the occurrence of litigation and corruption relating to the administration of income taxes, as well as increase the number of taxpayers complying with their statutory obligations under the Income Tax Act.

There has been a consistent increase in direct tax collection and a growing amount of taxpayers over time. Between the years 2010-2011 and 2024-2025, India's Gross Direct Tax Collection increased from approximately ₹4.46 Lakh crore over ₹22 lakh crore (provisional). The other objective of this change was to increase the India's Tax-to-GDP ratio since historically this is low relative to other developed nations.

2. Literature Review

- **Rao (2020):** Introduction of the New Tax Regime (Section 115BAC)
The government rolled out an optional new tax system with lower rates but eliminated key deductions like Section 80C, 80D, and HRA benefits. The study noted that the aim of the reform was to simplify taxes and broaden the tax base. However, taxpayers with significant investments in tax-saving schemes hesitated to switch to the new system.
- **Sharma and Kulkarni (2021):** Comparative Study of Old vs. New Personal Tax Regime. The results showed that while those with fewer investments favored the new, more straightforward structure, middle-class earners who actively planned their taxes benefited more under the previous regime. The study made clear that India's personal income tax system is progressively moving away from exemptions and deductions and toward transparency and simplification.
- **Patel (2023):** Digital Reforms and Personal Income Tax Compliance According to the study, these actions increased voluntary compliance, decreased tax evasion, and improved transparency. It also pointed out that first-time taxpayers were confused by the new reporting requirements. The author concluded that between 2020 and 2025, technological reforms will play a significant role in the development of India's personal income tax system.
- **Bansal and Sharma (2023):** examined the structure and performance of the Personal Income Tax system in India from 2011–12 to 2021–22. The authors observed that although tax rates were reduced and slabs were restructured over time, the burden on middle-income groups remains considerable. The paper emphasized the need to revise exemption limits in line with inflation and simplify the overall structure.
- **Babu & Raju (2023):** Observed the structural transformation in India's personal income tax system with special reference to the alternate tax regime introduced under Section 115BAC and further revised in Union Budget 2023. Compared the old deduction-based regime with the new concessional slab-based regime and analyzed its implications on savings, investment, consumption, and tax compliance. The authors observed that the new regime simplifies tax filing, reduces surcharge rates for high-income earners, increases rebate limits under Section 87A, and streamlines slab rates
- **DR. Rabina Rayan Saman Tara (2020):** It highlighted reforms such as VAT and GST aimed at simplifying taxation and reducing the multiplicity of taxes. The author concluded that despite reforms, challenges like system complexity, heavy reliance on indirect taxes, and the need for Direct Tax Code reforms still persist
- **B Deepa Samajiki Sandarsh (2022):** Examines India's tax system from FY2019–FY2026, highlighting post-pandemic structural changes. The study notes a rising share of direct taxes, with personal income tax surpassing corporate tax, improved revenue collections, and a higher tax-to-GDP ratio. It also raises concerns about lower-than-recommended tax devolution to states.
- **Annapurna A Kamath (2023):** All taxpayers are always in the scramble to prepare information on their sources of Personal income and submit their IT Returns because they fear to be punished by the tax. Income tax is a form of direct tax that an individual should pay on the income he earns. It is imposed by the government to increase revenue to be used in the expenditure of the people and to offer the country better infrastructure and to finance various services and programmes

- **Monika Goel (2022):** As the tax rates increase under varying slabs, rates decrease tax rates. The changes are required with change in economic conditions. Sometimes the crises compel the need to introduce change in the tax policies. The overarching aim of the research is to draw out the endeavors that have been made by the Government to augment the revenue collection, raise voluntary compliances, and impede the tax evasion to a healthy taxation between the organization structure and computerization of the tax structure.
- **Swain (2017):** studied how tax reforms affected individual taxpayers in India, focusing on slab rates, exemption limits, and tax liability. The study found that reforms aimed to make taxation more equitable and reduce the burden on lower-income groups. It also noted that complexity and frequent changes sometimes create confusion among taxpayers. The author concluded that a simpler and stable tax structure improves voluntary compliance and taxpayer confidence.
- **Deshpande (2021):** Tax Base Expansion and Formalisation of the Indian Economy
The research examined the growth of Indian taxpayer base during the structural adjustment in personal income taxation. It noted that better reporting procedures, financial information integration and expansion of income disclosure standards greatly augmented the number of return filers. The research did not simply dwell on slab changes in isolation but instead, it had structural integration of taxation and formal economic systems as its focus. The research has found that the development of personal income tax is strongly associated with the process of formalization of the economy and traceability of incomes.
- **Kumar (2022):** Fiscal Implications of Personal Income Tax Reforms in India
This study appraised the fiscal effect of exemption limit and slab rationalization in the long run. The paper contended that the regular increase in exemption caps can offset inflationary pressures and safeguard low-income taxpayers. It did however caution that an overextended relief policy without equal growth in tax base can also impact fiscal sustainability. The author indicated that the personal income tax system needs to be reformed in a balanced manner to ensure equity as well as revenue adequacy.
- **Nair (2022):** Equity and Progressivity in India's Personal Income Tax Structure
The paper reviewed the history of the Indian personal income taxation. It compared the effect of the variations in slab threshold, surcharge rates, and rebate systems on the vertical equity between income groups. The study concluded that although rate rationalization eased marginal burdens on some income groups, there was still progressivity on surcharge adjustments and increased slabs. The author concluded that the evolution of taxation structure is an indication of a balance between equity and administrative simplicity.
- **Gupta (2013):** evaluated India's personal income tax structure and found that low and middle-income groups face a relatively higher tax burden. The study emphasized the need to broaden exemption limits, reduce tax rates, and simplify tax procedures. It concluded that rational reforms are necessary to improve fairness, compliance, and taxpayer satisfaction
- **Chattopadhyay and Das-Gupta (2002):** examined how compliance costs influence taxpayer behavior in India. Their study found that high compliance and bribe costs reduce tax compliance and revenue. It highlighted that lowering compliance costs and improving tax administration can increase voluntary compliance and enhance tax collection efficiency
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- **Gautam and Shivani (2018):** analyzed personal income tax in India and its impact on private and public sector employees. The study found that income tax reforms increased tax revenue and the tax-to-GDP ratio, but a small share of the population pays tax. It emphasized rational tax planning, awareness, and reforms to improve compliance and equity

3. Objective of study

- To investigate the changes in tax slabs and rates. This goal aims at looking at the way in which the income tax slabs and rates have been altered through the period. It involves the examination of decrease or increases of tax rates, new slab introduction, and comparison between old and new tax regimes that have been introduced in 2020 and revised in subsequent budgets.
- To examine exemption, deduction and rebate reforms. The research will be conducted to assess the reforms in deductions (including Section 80C, 80D), rebates in Section 87A and abrogation or alteration of exemptions in the new tax regime. It also looks at the effects of these reforms on the savings and compliance of taxpayers.
- To assess the effectiveness of the policy reforms and budget announcements. The research would seek to establish whether the reforms undertaken during this time have enhanced tax compliance, expansion of tax base, boost in government revenues and simplified and made the system more transparent to the taxpayers.
- This purpose examines how significant changes like the implementation of the new tax regime (2020), faceless assessment system, digital filing systems, and simplification have changed things. It evaluates the influence of annual Union Budgets between 2015-2026 in structuring the same.

4. Research Methodology

4.1 Research Design

The present study adopts a descriptive and analytical research design with legal and historical elements. It describes the structural changes in the Personal Income Tax (PIT) system in India from 2010 to 2025 and analytically examines patterns of reforms across three major phases: the traditional slab-based system (2010–2014), the rationalization phase (2015–2019), and the structural shift with the introduction of the new tax regime (2020–2025). The design enables systematic comparison of policy parameters such as exemption limits, slab rates, deductions, and compliance reforms over time.

The research is analytical and comparative in character. It focuses on determining the impact of policy changes—such as the introduction of Section 115BAC—on taxpayer burden and compliance behavior. It seeks to identify patterns of "evolution," specifically looking at the transition from a deduction-heavy system to a simplified, slab-based default regime.

4.2 Source of data

The study is based entirely on secondary data collected from various reliable and authenticated sources. The secondary data sources include:

- Government Publications
 - Union Budget (2010–2025)
 - Income Tax Act (1961) provisions
 - CBDT circular
- Academic Journals and Research Articles
 - National journals on taxation and public finance
 - Research papers published in peer-reviewed journals

- Official Reports and Analyses
 - Documents from PRS Legislative Research, NIPFP and NITI Aayog
- Online Sources
 - Official websites such as incometaxindia.gov.in
 - Reputed financial and business portals

4.3 Population of the Study

The population comprises **salaried taxpayers in India** across various income brackets. As the study is based on secondary data, population characteristics are derived from national surveys and historical tax filing data representing the Indian workforce mainly between the years 2010 and 2025

4.4 Sampling Design

Since the study relies on secondary data and historical policy analysis, no direct sampling technique is employed. Instead, the research synthesizes findings from existing empirical studies and government datasets that have used scientifically designed samples to represent Indian taxpayers

4.5 Variables of the Study

• Independent Variables

- Economic and fiscal conditions influencing reforms
- Policy objectives (taxpayer relief, simplification, digitalization)

• Dependent Variables

- Basic exemption limits and thresholds
- Number, design, and rates of tax slabs
- Regime structure (single vs. dual/old-new system)
- Availability of deductions and exemption (e.g., 80C, standard deduction)
- Compliance mechanisms (manual vs digital filing)
- Rebate provisions under Section 87A

4.6 Tools and Techniques of Analysis

No primary statistical tools are applied, as the research focuses on structural and policy evolution rather than econometric modelling.

- Trend Analysis
To analyze changes in tax slabs, rates, and exemption thresholds over a period of time.
- Comparative Analysis
To compare the Old Tax Regime vs. the New Tax Regime (Section 115BAC) regarding tax savings and deduction benefits.
- Content Analysis
To interpret Finance Bills, budget speeches, and policy documents to extract rationales and objectives.

4.7 Limitations of the Study

- The research depends solely on secondary sources; it does not include primary data from taxpayers or tax officials.
- Tax laws continue to evolve, so findings reflect the position up to 2025 and may require updating.
- Official documents may emphasise positive outcomes, requiring cross-verification for balance.
- The analysis focuses on structural changes rather than behavioral or revenue impact assessment.

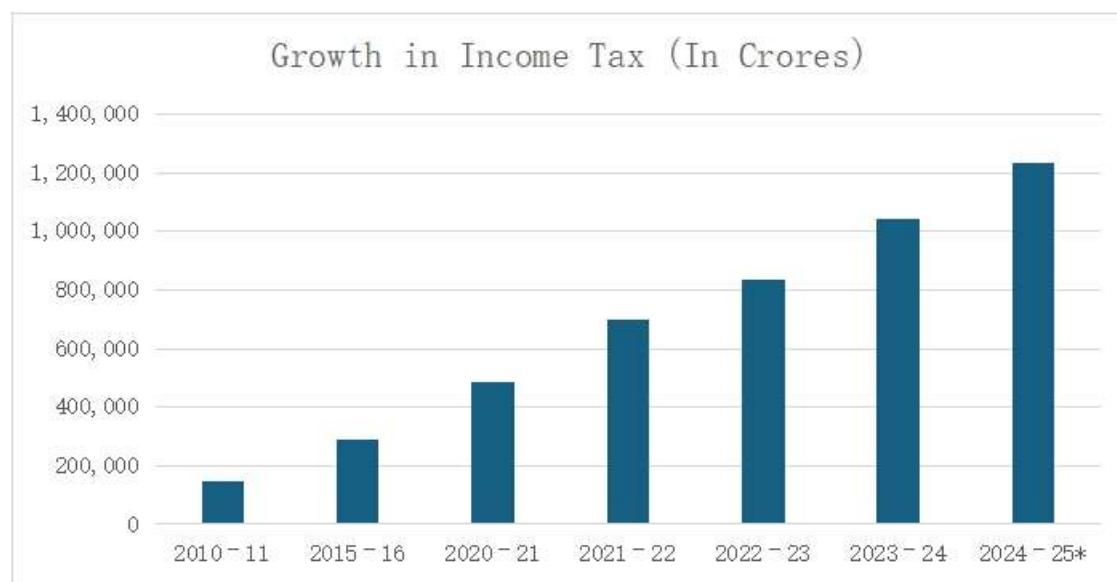
4.8 Scope of the Study

The study is confined to the personal income tax structure for individual taxpayers in India. It specifically analyses structural parameters such as slabs, rates, deductions, regime options, and compliance shifts, with emphasis on patterns of simplification and relief. It does not extend to corporate taxation, indirect taxes (e.g., GST), or developments beyond 2025.

5. Data analysis or comparative analysis

The evolution of the personal income tax structure in India from 2010 to 2026 reflects a gradual but significant transformation in both policy design and revenue performance. This transformation can be understood through an examination of tax collections, growth in individual return filers, tax-to-GDP ratio, and structural reforms in slab rates.

The area of personal income tax collection as shown on the Non-Corporate Tax (NCT) in the official statistics has shown a high growth and continued growth in the period of the study between 2010 and 2016. The Income Taxes rose to 1,46,258 crores in 2010-11 to 12,35,161 crores in 2024-25 (provisional). In addition, FY 2025-26 (as of February 2026) collection updates show that direct tax revenues are still growing, which proves that this trend will continue. This is more than eight-fold growth in personal income tax collections over the period of about fifteen years. The growth trend has not been linear all the time but especially in the pandemic year 2020-21 that registered slower growth but the recovery phase after the pandemic experienced rapid revenue growth. The further increase in collections up to FY 2025-26 proves that the reforms that were made in the structure such as slab rationalization and introduction of the New Tax Regime did not reduce the revenue-generating potential of the government.

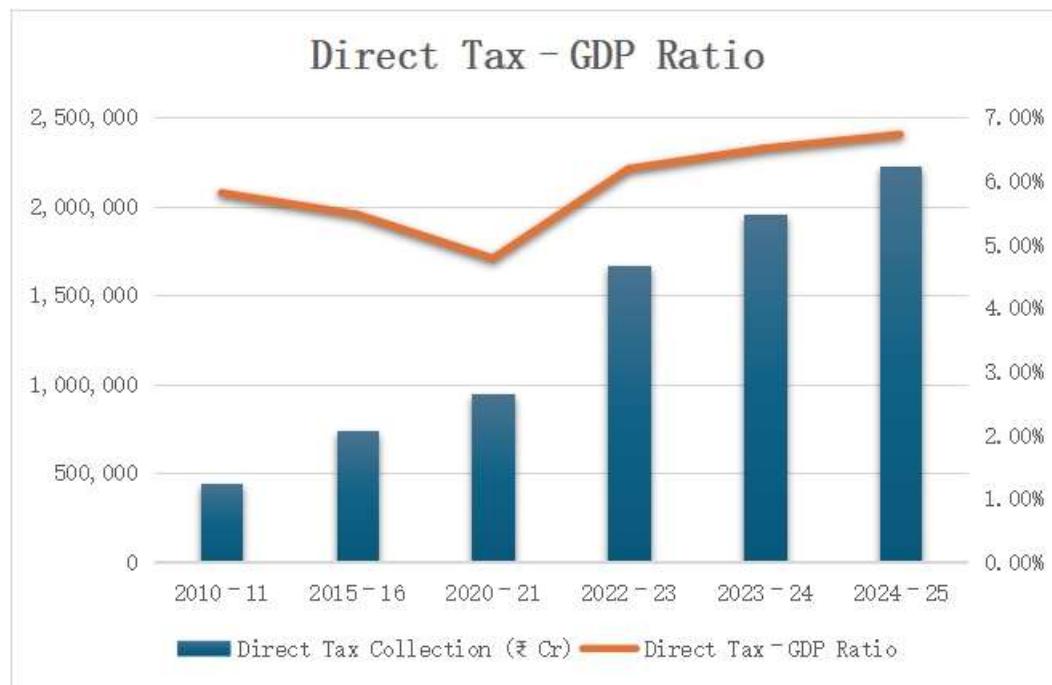


This increase in revenue has been accompanied by a steady increase in the number of individual return filers. Individual returns rose by 3.04 crore in 2013-14 to 8.08 crore in 2024-25. This almost doubled taxpayer base during the ten years indicates an increased formalization of the economy, a better digital system of compliance, and the popularity of online filing systems. Notably, the consistent rise in the number of returns made following the adoption of the New Tax

Regime and following their consolidation, shows that simplification efforts did not deter voluntary compliance or participation. On the contrary, they seem to have favored a wider inclusion of taxpayers.



This is supported by looking at the Direct Tax/GDP ratio. In 2010-11, the ratio was 5.81% and in 2020-21, it was 4.78% because the economy shrank during the pandemic. It however improved greatly to be at 6.73% in 2024-25. The resilience in the direct tax system in India is highlighted by the increase in tax buoyancy in the recovery period. The statistics indicate that rate rationalization and structural changes were coupled with the expansion of the tax base and the increase in administrative efficiency.



The slab system has gone through various phases in terms of structure. At the beginning of the research time, the regime was marked with a comparatively lower exemption threshold and a more intensive use of deductions to provisions like Section 80C and Section 80D. There was an increase in basic exemption level in 2010 from 1.6 lakh to

2.5 lakh in 2014 which is related to inflation adjustment and middle-income relief. The 10 percent slab narrowed down to 5 percent in 2017, indicating a trend towards rate rationalization without changing the deduction-based structure.

In 2020, there was a significant structural change, whereby the New Tax Regime under Section 115BAC was introduced. This regime further came up with several reduced tax rates with the removal of a majority of exemptions and deductions. Since 2023, the new regime became the default system, where there are a basic exemption of 3 lakh rupees and a rebate system in effect that means that an income up to 7 lakhs would be tax-free. Later reforms also increased relief under the rebate provision, and in the latest model, income up to 12 lakhs according to the new regime may in effect lead to zero tax liability under the rebate provision. This increase in rebate level is an indication of a clear policy objective to achieve large reprieve to the middle-income group without compromising the overall increase in revenue brought about by the widening of the base.

The focus of the reform has thus been moved towards tax planning that was based on the deductions to simplified rate-based taxation with stimulated rebate relief. This is a great change in the philosophy of personal income tax in India, a shift whereby the government should stimulate savings by deductions has been replaced with encouraging compliance, transparency, and increased participation through a structural simplification approach and a relief based on income. The behavioral aspect of this development signifies that understanding of deduction provisions in the past had an impact on tax planning behavior. It could, however, be implied that the previous taxation systems were too dependent on the ability of taxpayers to plan and awareness levels.

The behavioral awareness element of the tax determination might decrease as the system shifts towards a regime where deductions are minimized but is still relevant to decisions in the overall financial planning process. Generally, the years 2010-2026 reveal the fact that the Indian system of personal income tax reform has been rational and progressive without a decrease in the growth of revenues. The observations that tax collections have simultaneously risen, the number of returns that are being filed has also risen, the ratio of tax to GDP has improved and the expansion of relief that is based on rebates all reflect that structural simplification has enhanced compliance and fiscal capacity. This development can be described as the shift in the complexity to transparency, a deduction orientation to rate rationalization, and a limited participation to a wider inclusion of taxpayers.

RESULTS Here are **proper academic “Results of the Study”** based on your analysis section, written in a formal and structured manner suitable for a research paper:

6. RESULTS

The findings of the study indicate that the evolution of the Personal Income Tax (PIT) structure in India between 2010 and 2026 reflects a systematic shift toward simplification, transparency, and enhanced compliance without compromising revenue growth.

1 Significant Growth in Personal Income Tax Collection:

The study reveals a substantial increase in personal income tax collections during the study period. Non-Corporate Tax collections increased from approximately ₹1.46 lakh crore in FY 2010–11 to over ₹12.35 lakh crore in FY 2024–25 (provisional). This represents more than eight-fold growth over fifteen years. Despite the economic slowdown during the COVID-19 pandemic (FY 2020–21), collections recovered strongly in subsequent years, demonstrating the resilience and buoyancy of the direct tax system.

2. Expansion of the Taxpayer Base:

There has been a consistent increase in the number of individual income tax return (ITR) filers. The number of individual returns filed increased from about 3.04 crore in FY 2013–14 to 8.08 crore in FY 2024–25. This nearly threefold rise indicates:

- Greater formalization of the economy
- Improved digital compliance systems

- Increased voluntary participation
- Broader tax base expansion

The introduction of online filing systems, pre-filled returns, and faceless assessments contributed significantly to this growth

3. Improvement in Tax-to-GDP Ratio

The Direct Tax-to-GDP ratio improved from 5.81% in FY 2010–11 to 6.73% in FY 2024–25, despite a temporary decline to 4.78% during the pandemic year (FY 2020–21). The post-pandemic recovery reflects improved tax buoyancy, administrative efficiency, and widening of the tax base

4. Rationalization of Tax Slabs and Rates

The study identifies three major structural phases:

- **2010–2014:** Increase in basic exemption limits (from ₹1.6 lakh to ₹2.5 lakh) to adjust for inflation and provide relief.
- **2015–2019:** Reduction of lower slab rate from 10% to 5% (2017), indicating rate rationalization while retaining deduction-based structure.
- **2020–2026:** Introduction of the New Tax Regime under Section 115BAC, offering lower slab rates with minimal deductions.

The New Tax Regime marked a major philosophical shift from deduction-based tax planning to simplified slab-based taxation.

5. Shift from Deduction-Based Relief to Rebate-Based Relief

Earlier regimes relied heavily on deductions under Sections 80C, 80D, HRA, etc. However, the new regime minimizes exemptions and instead provides relief through enhanced rebate provisions under Section 87A.

- Rebate ensured zero tax liability up to ₹7 lakh income (post-2023 reforms).
- Further revisions effectively made income up to ₹12 lakh tax-free under the rebate mechanism in the latest structure.

This indicates a policy shift toward income-based relief rather than investment-linked tax benefits.

6. Strengthening of Digital Compliance Mechanisms

The introduction of:

- E-filing systems
- Pre-filled returns
- Faceless assessment and appeals
- Online grievance redressal

has significantly improved transparency, reduced human interface, minimized corruption, and enhanced taxpayer convenience.

7. Structural Simplification without Revenue Loss

One of the key findings is that simplification of tax structure did not adversely affect revenue generation. On the contrary, revenue, taxpayer base, and tax-to-GDP ratio improved simultaneously. This demonstrates that structural simplification and digitalization enhanced voluntary compliance and fiscal capacity.

Overall Result

The evolution of India's Personal Income Tax system from 2010 to 2026 reflects a gradual transition:

- From **complexity to transparency**
- From **deduction-heavy planning to rate rationalization**
- From **limited participation to broader inclusion**
- From **manual administration to digital governance**

The reforms collectively strengthened revenue performance, expanded the taxpayer base, and simplified compliance, thereby achieving the core objectives of tax reform.

7. Conclusion

India's evolving personal income tax system is a reflection of the nation's overall economic change. Reforms have continuously sought to strike a balance between revenue generation, taxpayer comfort, and economic progress, from the convoluted, high-rate tax regime of the pre-liberalization era to the more simplified and compliance-friendly system of today. The government has lowered exorbitant tax rates, streamlined tax slabs, implemented digital filing systems, and broadened the tax base over the years. The structure has been upgraded by landmark changes like the post-1991 liberalization measures, the e-filing systems, the tracking of Permanent Account Numbers (PANs), and the optional new tax regime under Section 115BAC. These actions have increased voluntary compliance, decreased tax evasion, and improved transparency.

The dual tax regime represents a major move toward simplicity and flexibility by giving taxpayers the option to select between the old, deduction-based structure and the new, lower-rate structure. However, ongoing efforts to expand the tax base, use technology, and simplify exclusions point to a shift toward a more effective and just system.

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